



ALABAMA
DEPARTMENT OF FINANCE
DIVISION OF RISK MANAGEMENT





STATE OF ALABAMA
OFFICE OF THE DIRECTOR OF FINANCE
STATE CAPITOL
MONTGOMERY, ALABAMA 36130

DON SIEGELMAN
GOVERNOR

HENRY C. MABRY, III
DIRECTOR OF FINANCE

His Excellency
The Honorable Don Siegelman
Governor
State Capitol
Montgomery, Alabama 36130

Dear Governor Siegelman:

I am pleased to submit to you the Annual Report of the Department of Finance's Division of Risk Management for Fiscal Year 2000-2001.

This is the seventy-seventh report of the State Insurance Fund, which protects the buildings and contents owned by the State of Alabama, public colleges and universities and most public school systems. It is among the most comprehensive and financially sound state property self-insurance programs in the nation.

The General Liability Trust Fund defends and indemnifies state employees and officers from lawsuits arising from their official duties. Fiscal Year 2001 was the eighteenth year that this valuable protection has been in place.

Also included is the report of the State Employee Injury Compensation Trust Fund. This program provides medical and lost-time benefits for employees who are injured in the line of duty.

While the State of Alabama and its employees, along with Alabama taxpayers, are well-served by these programs, there will be continuing efforts in the coming year to improve services and control costs.

Sincerely,

Henry C. Mabry, III
Director of Finance



**Honorable Don Siegelman
Governor**

The Division of Risk Management provides invaluable protection for the enormous investment made by taxpayers in the State's public school buildings and other facilities. The State Insurance Fund's coverage is broad and reasonably priced, and claims are managed quickly and professionally. State agencies, universities and school systems are treated as valued customers.

Other Risk Management programs allow State officers and employees to perform their jobs free from worry about frivolous lawsuits or lost wages due to disabling on-the-job injuries.

I congratulate the Director of Finance and the State Risk Manager for the Division's outstanding performance on behalf of State government and, ultimately, the people of Alabama.



Division of Risk Management
777 South Lawrence Street, Suite 200
Montgomery, Alabama 36130
Phone: 334-223-6120
Fax: 334-223-6154
Web Page: <http://www.riskmgt.state.al.us>

STATE OF ALABAMA

**Department of Finance
Division of Risk Management**

**Comprehensive Annual Report
For the Fiscal Year Ended September 30, 2001**



Don Siegelman
Governor

Dr. Henry C. Mabry, III
Director of Finance

A. Lee Miller, III
Finance Department General Counsel

Jerry Carpenter
Risk Manager

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Fiscal year 2001, otherwise unremarkable, ended with the tragic and sobering events of September 11th. While Alabama was not directly affected by the terrorist attacks, they created what has been widely described as the worst crisis in the history of the insurance industry. Reinsurance costs had already been rising for a couple of years; the State Insurance Fund's April 1, 2001, renewal saw a 22% premium increase. We clearly face a dramatic challenge in obtaining acceptable reinsurance protection in the coming year.

The operations of the Division of Risk Management (DORM) fall into these general areas:

- ✓ **The State Insurance Fund** provides quality property insurance for state properties, colleges and universities and most public school systems.
- ✓ **The General Liability Trust Fund** protects state employees who are subjected to lawsuits arising from the performance of their job duties.
- ✓ **The State Employee Injury Compensation Trust Fund** covers state employees for lost time and medical expenses resulting from accidental injuries while on the job.
- ✓ **The Employee Assistance Program** provides counseling and referral for employees with problems that affect job performance.
- ✓ **Risk Management Services** delivers an array of skilled services designed to avoid loss, both human and financial.

All three trust funds managed by DORM had lower revenues in FY 2001 than in the previous year, but remain in sound financial condition.

The goal of DORM's employees is to provide excellent service to client agencies at the lowest possible cost. We look forward to continued success in FY 2002.

STATE INSURANCE FUND

The State Insurance Fund (SIF) has been protecting state and public school properties since 1923. The SIF also covers the 55 Water Street Building in New York City and the Grand Hotel in Point Clear, both of which are owned by the Retirement Systems of Alabama.

The 55 Water Street Building is just six blocks from the site of the World Trade Center. It suffered no structural damage in the September attacks, although clean-up costs and loss of parking garage revenues totaled more than \$350,000.

The SIF has had requests for coverage quotes from several school systems that are presently insured in the private sector. Many are facing large premium increases or non-renewals as a result of the present crisis in the insurance industry.

Premiums paid to the SIF by insured agencies are invested and used as needed to pay losses. Reinsurance (\$750 million per occurrence) is purchased to protect the state from disasters such as hurricanes.

SIF clients whose properties have been inspected and valued are offered blanket replacement cost coverage for qualified buildings. This coverage assures that a destroyed building will be fully replaced with materials of like kind and quality, regardless of the amount of insurance carried. All public school systems insured by the SIF have blanket replacement cost protection for both buildings and their contents, and other clients are offered this protection as their property inspections are completed.

Other valuable coverages available to SIF clients:

Extra expense coverage steps in when a client must incur extraordinary expense to keep facilities operating after a loss.

The SIF's electronic data processing policy provides broad protection for computers, printers and related hardware as well as for software and stored data.

Boiler/machinery insurance is included in the SIF's standard policy at no additional cost.

The largest single SIF loss in FY 2001 resulted from a fire that heavily damaged a building owned by the Huntsville City School System. Much of the loss was to equipment owned by Alabama Public Television, a tenant. A total of \$2,919,404 has been reserved.

The second largest was also a fire claim. The Monroe County Board of Education lost its Beatrice Gymnasium to a blaze caused by lightning. The loss to the building and its contents totaled \$661,121.

Values Table

FY	STATEWIDE	VALUE	
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	INSURED VALUES	INCREASE FROM PREVIOUS YEAR	INCREASE
2001	19,889,626,827	1,201,401,396	6.4%
2000	18,688,225,431	1,114,330,758	6.3%
1999	17,573,894,673	2,256,317,091	14.7%
1998	15,317,577,582	1,228,452,640	8.7%
1997	14,089,124,942	876,473,448	6.6%
1996	13,212,651,494	1,414,164,335	12.0%
1995	11,798,487,159	644,577,724	5.8%

Property Claim Summary Table

Incurred Losses

Perils	Number of Claims		Incurred Losses FY 2001	
	FY 00	FY 01	Amount	% of Total
Fire	57	77	\$4,023,920	42.68%
Lightning	303	272	1,497,061	15.88%
Wind	156	422	2,320,880	24.62%
Burglary	94	93	184,528	1.96%
Vandalism	39	20	29,946	0.32%
Hail	6	9	247,710	2.63%
Vehicle	26	12	29,363	0.31%
Water	72	94	868,852	9.22%
Freeze	28	0	0	0.00%
Boiler & Machinery	38	9	90,136	0.96%
Collapse	0	9	56,330	0.60%
All Other	21	18	79,897	0.85%
Totals	840	1,035	\$9,428,623	100.00%

Claims Summary

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Claims Handled	1,035	840	778	1,293
Outside Adjusted	538	392	263	911
Inside Adjusted	497	448	515	382
Average Claim Size	\$9,110	\$8,711	\$11,885	\$7,398
Losses Incurred	\$9,428,623	\$7,317,139	\$9,246,716	\$9,565,122

SIF History of Property Losses

History of Property Losses 1992-2001

